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WHAT CAUSED THE PANIC

Whenever there has been a panic or signs of one in Wall Street, a certain clique of railroad bankers, who pose in the newspapers as financial experts, push themselves forward to explain the cause of the trouble. In the estimation of these parties, questions relating to panics can be solved only by bankers, and no one else is competent to express an opinion on the subject. And in every case the explanation which they put forward is one that is best suited to promote their own particular interests. For example, they want the government to issue a currency based on bank assets, said assets being made up largely of railroad securities. Therefore they assert that the stringency which caused the panic of 1907 and tight money in former years, is due to our inelastic currency, which fails to expand when most needed to meet the wants of increasing business. Money is most needed around crop-moving times, and it is then that the defects in our currency are most seriously felt. As one expert puts it, we have two months in the year when a larger amount of funds is needed to move crops, and ten months when there is a plethora of money, after the crops are moved and paid for. And so we are told that it was the failure of the currency to expand, to meet this crop-moving demand, that caused the stringency and the panic.

To popularize this doctrine and force Congress to give us asset currency, its advocates have begun what they call a "campaign of education." But it is a false teaching which they propagate, for they are misleading the public on some very important points.

For instance, the term elastic, or emergency, currency is intended to create the impression that the stringency is only temporary — for about two months in the Autumn — and that when the crops have been duly marketed, money will become easier and this emergency currency will be recalled. Thus, in his 1904 address, Mr. Hepburn says: "Credit or currency must be provided to carry the products of farm and factory to the marts of the world, in order that the return prices may meet and extin-

guish local demands and restore normal conditions." Here Mr. Hepburn stops short at a very important point and misleads his hearers as to what follows. He seeks to create the impression that after the crops have been duly marketed, Europe will pay cash for them, and that this cash will meet and extinguish local demands, and dispense with further need of the emergency currency.

Now the fact is that for a number of years back there have been no return prices worth mentioning. This was notably the case in 1904, when this address was delivered. In that year, instead of receiving cash in settlement of our trade balance, we actually exported over $59,000,000 more gold and silver than we imported. Why was this? What became of the return prices that were to meet and extinguish local demands? And what became of the return prices in the previous seven years of our big foreign trade?

Surely a campaign of education that stops short at this point is not likely to impart a very complete knowledge of the causes of money stringency and panics. I propose therefore to begin my discussion where Mr. Hepburn leaves off.

This question of the failure to get cash payments for our enormous exports of merchandise attracted much attention in 1901. At that time the current theory was that about $250,000,000 of each year's trade balance went to offset our annual foreign debts for interest dues, tourists' expenses, etc., and that the balance went to buy back American securities, and to invest in foreign undertakings and in foreign bonds. In his article on the American invasion, Frank A. Vanderlip estimates that in the preceding four years we had thus bought back $1,200,000,000 worth of our securities. To a request for his authority for this estimate Mr. Vanderlip replied as follows:

> "I am in receipt of your letter and note your desire to find statistics verifying a statement I made in a recent magazine that the United States had bought back from Europe about $1,200,000,000 of our securities. This I regret to say is impossible. There are no definite figures, nor is there any way in which you can set about to prove my assertion. The calculation is entirely one of estimate, in which many collateral pieces of information entered."

Thus it will be seen that the sole basis of this claim of foreign liquidation is mere guesswork — calculation based on estimates. Mr. Vanderlip is quite right in saying there is no way in which I could set about to prove his assertion; but after considerable labor I have found some fairly definite facts and figures which disprove it.

In my article on "Trade Balances" in THE SEWANEE REVIEW July-September, 1903, I presented the reports of dealings for foreign account on the New York Stock Exchange, as published in New York newspapers, which showed an excess of foreign purchases in every one of these four years. The net purchases for the four years amounted to some 3,700,000 shares. I gave also a list of foreign investments in our stocks and properties outside of the Exchange, which amounted to about $320,000,000. So that if we put the value of the stocks bought on the Exchange at $50 a share, the total foreign investments amounted to nearly $500,000,000 in these four years. In reality it was much more, for I have since learned that the Germans put over $80,000,000 in Union Pacific, and that a large portion of our Spanish war bonds went abroad in 1898.

A statement of foreign dealings here from January, 1902, to May, 1904, appeared in my second article in THE SEWANEE REVIEW of July-September, 1904. These two statements are the only detailed record ever published of such dealings and, excepting an error in regard to the Rock Island issue, I have every reason to believe that it is a reasonably correct statement.

The claim of foreign liquidation continued to be exploited, however, in 1904 and 1905, in spite of all the evidence to the contrary. Thus, A. D. Noyes, Financial Editor of the *Evening Post*, in his article on "Finance" (*Forum*, April-June, 1904) says: "It is, however, logical to suppose that the stocks and bonds which foreigners bought in 1903 were largely sold back to New York in the excited rise of prices during the fall of 1904 and the spring of 1905."

Referring to the outflow of gold in January, 1905, the *Evening Sun* says: "It should not be forgotten that there is very good banking house opinion for saying that at the bottom of the movement in foreign exchange against the country for the last

three months, there has been and continues to be a steady trickle of American securities back to this city."

Now, the fact is that instead of this liquidation, or "steady trickle," vouched for by "good banking house opinion," foreign dealings in our securities in this period exceeded that of former years. According to the *Brooklyn Eagle*, the purchases in the last half of 1904 netted 182,000 shares and for the first half of 1905, 100,000; and the greatest excess was in the six months from October 1, 1904, to March 30, 1905.

But these exchange deals were but a drop in the bucket compared to the outside deals, which were on a larger scale than in any former twelve months' period, and included $75,000,000 Southern Pacific, $50,000,000 Western Pacific, $50,000,000 Pennsylvania railroad bonds. All told, foreign banking houses took upwards of $800,000,000 worth of securities in this period, and the bulk of these were undoubtedly sold abroad. Referring to the heavy foreign investment, the *Wall Street Journal*, December 17, 1904, has this: "About the most interesting development in the general bond market is the purchase of Southern Pacific and other early maturing bonds by the international banking houses. There is more money in this than in shipping gold."

As to 1905, the *Bankers' Magazine* for April, 1905, says: "The heavy purchases of American securities for London account caused large offerings of bills of exchange and forced sterling nearly to the gold export point." There was some selling for foreign account in this period, but the net result was largely in favor of the purchases. Thus the *Post*, April 15, 1905, Mr. Noyes's own paper, says: "With this week's purchases of American stocks and bonds for foreign account, the European holdings of American securities abroad are, according to international banking authority, greater now than at any time since the movement of 1901-1902." In spite of these sales of securities, it seems that we were also borrowing abroad. According to the *Post's* Paris correspondent, December 31, 1904, we then owed Europe several hundred million dollars. February 18, 1905, the *Post* estimated that by sales of securities abroad his debt had been cut down to $50,000,000, and on March 18 it

claimed that it had been fully canceled by further deals of the same nature. We appear to have gotten into grief immediately after this, however, for the reports show heavy borrowing clear up to June 24, 1905, when the *Post* estimated the debt incurred since April at from $50,000,000 to $75,000,000.

This history of foreign dealings here sufficiently disposes of these claims of foreign liquidations of American securities at that time.

It likewise knocks the foundation from under the whole theory of the disappearance of our foreign trade balances as exploited by Messrs. Vanderlip, Noyes, Hepburn, and others. For the fiscal year ending June 30, 1905, the statistics of our foreign trade shows these results:

Net exports of merchandise	$401,000,000.00
Net exports of gold	38,000,000.00
Net exports of silver	21,000,000.00

Now, if, as this current theory asserts, our annual foreign debts do not exceed $250,000,000, then we should have imported $150,000,000 in cash, or bought back that amount of securities, or had it standing to our credit abroad. But instead of this we exported $59,000,000 more gold than we imported, sold abroad hundreds of millions worth more securities than we got back, and borrowed many millions more.

The only explanation of this "chain of absurdities," as a London paper termed it, is that in our dealings with the outside world we are running behind. The fundamental error of the current theory is that it greatly underestimates these annual foreign debts. Instead of amounting to only $250,000,000, they were three times that amount in 1905, and were growing all the time.

For that period a proper estimate of these various debts would have been about as follows:

Interest, dividends and profits on foreign capital	$300,000,000.00
Immigrants' hoards	200,000,000.00
Expenses of Americans abroad	125,000,000.00
Cost of ocean freight, etc.	125,000,000.00
Total	$750,000,000.00

According to this estimate, instead of having a surplus of $150,000,000 at the end of the fiscal year 1905, we piled up a deficit of some $350,000,000. We exported $59,000,000 in gold and silver in part settlement of this deficit, and in order to stave off cash payments of the balance we sold or pledged all these securities abroad.

It may seem incredible that all of our great financial lights, prominent bankers, Treasury officials and financial writers could be so far out of the way as the above estimate implies, and no doubt it will occur to some that I am rash in opposing such eminent authorities. But in view of certain facts which came to light in the summer of 1901, I feel that I have a right to be confident about the matter.

From September, 1899, to May 22, 1901, it was claimed that we were lending abroad a good part of the surplus alleged to be due on our trade balances. In June, 1900, Hon. Jefferson M. Levy, the banker, estimated these loans at over $500,000,000. The New York *Times*, January 7, 1901, confirmed this estimate. May 15, 1901, the same paper reduced its estimate to "several hundred millions," and this was the amount agreed upon by bankers and financial critics generally.

This cheery view did not, as may be readily imagined, square with my ideas of the situation, and in two letters to the New York *World* (June, 1900) and the Brooklyn *Citizen* (October 1900) I insisted that the boot was on the other leg — that instead of Europe owing us, it was we that owed Europe. The day before the May panic of 1901 I had another letter in the *Times*, in which I reiterated this view, and added that the events of the next few months would confirm it. Here is the letter:

"In a recent editorial on 'The Liquidation of Trade Balances,' you state that 'speculation as to how Europe will settle her enormous balances with this country are complicated by uncertainty as to how such settlement has been effected in the past.'

"Now, I suggest that if our financial experts will look in an entirely opposite direction, and put a common sense construction on what they see, their 'speculation' will be, not as to how Europe will settle its balances with us, but as to how we will settle our balances with Europe.

"According to the current theory, about one half of our trade balances is needed to cancel our annual foreign debts for freights, interest dues, and tourists' expenses; the rest goes to pay for returned securities, or is being loaned abroad. But I contend that this theory is wrong. A careful study of the question has convinced me that in recent years these annual foreign debts have grown so enormous that now they more than offset our trade balances, and so we have to export specie and mortgage securities and properties to square the account.

"Of course, I know that this pessimistic view will provoke a smile of derision from those who believe in all the fine talk about our becoming a 'creditor nation,' but nevertheless, the course of events in the next few months will, I am convinced, prove that it is a correct view of the matter."

Just two weeks after this letter was published the financial world was startled by a dispatch from the Paris correspondent of the *Post*, May 22, 1901, to the effect that American capitalists were at that time borrowing immense sums abroad on finance bills. This news was scouted at first. Even the *Post* was so infected with the "creditor nation" lunacy that it refused to believe its own correspondent, and the next day it quoted several foreign bankers as denying it; but later revelations proved that the statement was true.

It is now admitted that we owed at that time about $250,000,000. So that instead of being $250,000,000 to the good we were that much to the bad. It will thus be seen that the great financial experts were $500,000,000 out of the way in their estimate of the international money situation, and that my view of that matter as stated in the *World* in June, 1900, and in the *Times* in May 1901, was fully confirmed.

Among the experts who have exploited this yarn that we were lending immense sums abroad, were Secretary Gage, Henry Clews, Chauncey M. Depew, R. G. Dun & Company, A. P. Hepburn, Frank A. Vanderlip, Jacob H. Schiff, Mint Director George E. Roberts, and a host of others who are now engaged in the "campaign of education" to prove that the want of asset currency caused the panic of 1907. In an address to the Chicago Bankers' Club, March, 1901, Mr. Roberts exuded this: "Our trade balances are so large that to attempt to collect them

in cash would ruin our customers. A nation with power to amass such credits becomes of necessity an investor in all parts of the world."

Those American bankers who were scurrying all over Europe to borrow these immense sums must have winked the other eye when they read Mr. Roberts' boastful utterance.

It is always claimed that these bankers borrowed this money to finance their big schemes. This was true, but not in the sense usually understood. The money they borrowed was due abroad on account of this yearly deficit. The one-day panic of December, 1899, which was precipitated by the outflow of gold, showed that we could not stand a heavy loss of the metal. The export of $250,000,000, which was what we owed abroad in 1901, would certainly have started another panic and paralyzed the boom in stocks that was under way at the time. This method of staving off gold exports is precisely the same as that adopted by the Morgan-Belmont syndicate in 1895, when they contracted to protect the Treasury reserve. They did it by selling and pledging enough securities abroad to offset the foreign demand for the metal.

The boldest advocate of the current theory, the *Times*, once asserted that "All theories regarding whether we owe 'abroad' or 'abroad' owes us, must yield to the touchstone of foreign exchange."

On this point, of course, we all agree, providing that we know just what influences foreign exchange during the period under discussion.

If, for example, our net exports of merchandise amount to $400,000,000, as it did in 1905, it would seem as though "abroad" owed us. But if at the end of the year we find that we exported more specie than we imported, and have also sold or pledged vast amounts of securities to avert further exports, it is morally certain that we owe "abroad" or, to put it another way, if we peddle out securities, financial bills, etc., to the extent of over $500,000,000, as it is universally admitted that we did in the two and a half years prior to June 30, 1902, without getting a dollar in cash (as the net exports of specie, gold and silver, in this period exceeded the imports), it is equally certain that

we owed 'abroad' that much money. We kept down foreign exchange, and averted an export of specie, by selling or pledging all these securities.

Now, the history of the period conclusively proves that the big bankers have been thus manipulating foreign exchange to avert gold shipments ever since then. And the best proof of the fact is furnished by the *Times* itself. Referring to a possible outflow, the *Times*, February 14, 1903, says: "The unfavorable effect of gold exports, although more sentimental than real, never fails to affect our securities to some extent. Those most interested in our securities being our most powerful financial leaders can be counted upon to do all they can to delay the outflow or confine it to the smallest possible limit." Referring to what had already been done in this direction, A. D. Noyes, in his article on "Finance" (*Forum,* April-June, 1903) says: "The season's market for foreign exchange has, however, been managed with the greatest skill, and prevention of gold exports has been made possible through a series of international operations in the money market."

The "greatest skill" here referred to consisted simply in borrowing abroad on loan bills to stay the efflux until enough securities could be sold abroad to square the account. And these two statements prove that the Faith Cure Pool formed in 1902 to stem the tide had become a permanent affair. But each year it requires more of this "skill" and more securities to effect the purpose. Here are a few reports that bear on this question: "Among the factors which contribute to the easier tone of sterling exchange is the export of large quantities of stocks to Europe. The facts in the case are that large blocks of securities are being sent abroad with every steamer, and this serves to depress the rate for sterling here."—(*Evening Sun,* March 23, 1904). "Most of the notes of Baltimore & Ohio and Norfolk & Western were taken abroad. This class of notes and certificates are being eagerly taken by foreign capitalists, which serves to explain why sterling exchange keeps below the shipping point, and prevents for the present the larger shipments of gold that were expected."—(*Globe,* April 14, 1904.). "But whenever exchange advances and the money market shows signs of hardening,

finance bills are offered freely, causing a decline in exchange and an easier tone in the money market."—(*Wall Street Journal*, April 3, 1905). "We have thus far issued $80,000,000 in finance bills to avert the efflux of gold."—(*Brooklyn Eagle*, July 2, 1905). "We are now borrowing abroad to check the efflux of gold."—(*Journal of Commerce*, November 11, 1905). "It was only our big borrowings abroad that checked the outflow of gold."—(*Wall Street Journal*, December 13, 1905). "It is years and years since we owed as much to the outside world as now." —(*Eagle*, May 13, 1906).

These are but a few of the reports found in the New York papers showing that the peddling of securities abroad was to avert gold exports. They also prove beyond the shadow of a doubt that our balances are not nearly big enough to cancel these annual debts, and that this export of securities is to settle the deficit without shipping gold. Since 1901 this yearly deficit has undoubtedly increased. There has been a steady increase in the amounts due for earnings of foreign capital, immigrants' hoards, tourists' expenses, and freights, while at the same time our net export of merchandise has been falling off so that the deficit was growing larger from both ends. And accordingly the efforts to stave off gold exports in settlement of it grew more burdensome every year. Some idea of the extent of this burden may be gathered from the fact that in the five years prior to December, 1905, the two leading representatives of foreign capital, J. P. Morgan & Co., and Kuhn, Loeb & Co., floated $2,700,000,000 worth of railroad securities, and the reports show that the bulk of them were taken for foreign account. Other large amounts were floated abroad by Speyer & Co. and other foreign banking houses.

The clearest proof that we have thus been piling up an enormous debt abroad is furnished by certain facts that came out in 1906, concerning which there is no dispute. According to an investigation made by the London *Economist* and the London *Statist*, our borrowings from London and Paris alone in the six months prior to June, 1906, reached the enormous total of $450,000,000. We also borrowed large sums from Holland and Germany. During this period foreign bankers took over $500,000,-

000 worth of securities, including two issues of Pennsylvania bonds, $100,000,000 (sold in Paris), $50,000,000 telephone bonds, $35,000,000 Lake Shore bonds, and a big block of New York City bonds. How many of these issues went as collateral for the loans, I am unable to say.

About this time there was another change for the worse in the situation. Heretofore, we had been borrowing to avert the outflow of gold. But in 1906 the conditions were such that we had to borrow, not only to keep what we had, but also to draw more gold from Europe. What was the cause of this change? The oracles told us that it was but another proof that business had outgrown the money supply. But they did not prove this; they simply asserted it.

The most reasonable answer, indeed the only one capable of proof, is that the absorption of our currency by that portion of these migratory immigrants, who take their hoards away on their persons, was beginning to be felt. That portion of these hoards which was deposited in the foreign banks here could be loaned out here again, providing the foreign bankers could borrow enough abroad to offset the demands of the immigrants when presented on the other side. But the other portion of these hoards that was carried out of the country in the pockets of the immigrants could not, of course, be restored to general circulation. So we had to make up for the loss by borrowing foreign gold to avert financial disaster. During the summer and fall of 1906, we kept on borrowing to hold what coin we had and to get more from Europe. When A. D. Noyes was in Europe he found that experts over there estimated that we then owed $500,-000,000. Later on, the *Times*, October 29, 1906, put the debt at $750,000,000. Possibly we reduced this debt somewhat with crop exports, but we continued to borrow during every week of November and December. The *Post's* Paris correspondent, December 29, 1906, estimated the debts at that time at $600,-000,000.

This method of avoiding the inevitable had to come to an end some time. After putting out some $300,000,000 worth of securities in the first ten weeks of 1907, we had the panic of March 14. After this event the oracles declared that liquidation had

run its course and the worst was over, as we had never had two panics in one year. But while they were still boasting, the August panic came along to prove how little they knew about the situation.

After the March panic, a well-known financier, voicing the sentiment of his kind, christened it the "Roosevelt panic," and declared that the trouble was due to persecution and hostility to railroads, which caused a lack of confidence among investors. As to this, it can be said that during this administration the railroads have sold more securities and have obtained better prices for them than in any similar period of history. Even in the first quarter of 1907, when the fires of persecution were growing hotter than ever, and when there was as yet no sign that His Strenuosity had abated at all his strenuousness, the sale of such securities was of a record nature. A curious feature about this affair is that it was the roads whose owners have excited most of the hostility, that have put out the most securities. Another circumstance which so strikingly refutes this explanation of the trouble as to excite surprise that it has not been noticed before, is the condition of the banks at that time.

If hostility or anything else was causing lack of confidence in railroad stocks, there would certainly have been a rush of capital into other lines, or at least a congestion of idle funds in banks. But neither of these was the case. The stringency was general. And instead of any congestion of money in banks, the statistics show that their proportion of the stock of money had been steadily growing smaller before March, 1907.

Other financial leaders declared that, while hostility may have hastened the trouble, our inelastic currency was the basic cause of it.

Now the fact is, that coming when it did, this panic completely upset the whole argument for emergency currency. For the essence of this argument is, that it is the failure of currency to expand around crop-moving times that causes tight money and panics; and that when this season is over the "return prices meet and extinguish local demands" and this makes money plentiful. But this trouble of 1907 came in March, after the crops had been marketed and paid for. And 1907 was no exception to this

rule; for we have had tight money from December to March and even later in most of the past eight years.

Against these several theories of the matter I offer another, which is based upon the international commodities, specie, and securities, as herein set forth.

The history of this movement furnishes unmistakable proof that in our dealings with the outside world we are running behind. We are paying out more for the use of foreign capital, foreign labor, and for expenditures abroad than our exports of merchandise can offset. And it is the absorption of our currency in settlement of the deficit that is the main cause of all our financial woes.

This explains why Mr. Hepburn's "return prices" never meet to "extinguish local demands." It also explains why it is, that instead of getting those return prices, we have been selling and pledging securities abroad to avert gold exports in settlement of the deficit and to bring gold here. And finally it explains why it is that although we have a greater supply of money than any other country, we also have more severe financial panics. Thus far, the promoting foreign bankers, who are also our most influential financial leaders, have managed to hide this great fact from public view by averting gold exports in settlement of these yearly deficits and by befuddling the public mind as to the nature of our borrowings abroad. But there was one fact about these borrowings which, it would seem, ought long ago to have opened the eyes of the public to the true situation. This was the international movement of specie. If, for example, our trade balances had been large enough even to offset these annual foreign debts during the calendar year 1906, when we borrowed more than $600,000,000, then we should have imported that much gold But instead of this we imported only $108,000,000. At the same time, this circumstance points with unerring certainty to the one great cause of the stringency. It proves that during 1906 the foreign banks had at least $500,000,000 of our money in their vaults. As a matter of fact they had more. The $600,000,000 was owed to European banks. The reports of Canadian banks showed that they had $85,000,000 loaned here; while the Japanese banks had $60,000,000.

Currency reformers always insist that the reason why foreign countries never have such severe panics is because of the superiority of their monetary systems. But they carefully conceal the fact that foreign monetary systems are not subjected to the strain that is put upon ours. For no other country has to foot the bills of so great an army of tourists and absentees, no other country has to pay out such vast sums to alien laborers and capitalists. When this fact finally dawns upon the public mind, the attempt to saddle the responsibility for our troubles upon the currency system will collapse in a night.

While currency defects were most generally assigned as the cause of the panics, there were a few who admitted that the trouble had begun two years before. Indeed, the money market was headed that way in 1900, when we started this borrowing on a large scale. During 1903-1904, we floated so many securities abroad to keep off gold exports, that Europe became alarmed, and in 1905 we began to put out still more finance bills and short-term notes. At the end of that year, the *Post*, December 30, said: "The stock speculation and the banking situation would repeatedly have broken down but for foreign borrowing." One year later, December 29, 1906, the same paper had this statement: "We have borrowed abroad more heavily than ever before to sustain the speculative edifice, and have done so at the highest rates on record." Here are two plain admissions that we would have collapsed but for foreign loans here.

In this same issue of the *Post* I note several statements by its Paris correspondent which are pertinent to this discussion. After stating that it is our enormous debts which are the main cause of the difficulties abroad, he propounds this question: "How comes it that the United States, passing as they are through a period of all but incredible prosperity, with their commercial exports incessantly increasing, and with an excess even in export of securities, do not manage to pay off once and for all their European debt. Why, above all things, should the debt be nowadays steadily increased? The question is one which seems to me not at all impossible to answer."

Answering this question the correspondent proceeds to show that the amounts due to other countries for immigrants' savings,

expenses of American tourists, and earnings of foreign capital largely overtop our trade balances, leaving us with a yearly deficit, the settlement of which causes so much annoyance and worry to Europe and ourselves.

This is a fairly clear confirmation of the theory I am advocating in this article, and have already advocated in THE SEWANEE REVIEW. It is a curious coincidence that it was the Paris correspondent of the *Post* who, in 1901, corroborated my statement in the *World* a year before, that so far from having any credit across the ocean, our trade balances were not even sufficient to overcome these annual foreign debts.

During the early part of 1907 there were numerous signs that trouble was brewing, although the financial oracles were doing a tremendous amount of lying to hide the fact from the public. The first was the rapid rise in foreign exchange, and the second was the frantic effort of the big bankers to sell or pledge more securities abroad to avert gold exports. As before stated, they put out some $300,000,000 in the first ten weeks, and while it did not prevent the March panic, it was frequently admitted that gold would have gone out sooner but for this. Says the London correspondent of the *Post,* May 25: "It is believed here that New York may escape heavy gold exports after all, by putting out finance bills and resorting again to what Lombard Street calls 'hole-and-corner' borrowing." That same week the *Wall Street Journal* and *Dun's Review* both stated that foreign purchases of securities warded off the threatened outflow of gold. In spite of more of such work the yellow metal went out the next week and continued to go until it precipitated the August panic.

It might indeed be supposed that in view of the enormous increase of our currency since 1896, the outflow of a few millions would not matter. But the great fact which is constantly ignored is that one large portion of this money is in the foreign banks here, while another has been carried off by the aliens. A circumstance which proves that these aliens are making away with our gold is, that despite the great increase in production since 1896, the yellow metal is actually scarcer in hand-to-hand circulation than in was ten years ago. There has been, it

is true, an increased amount in circulation here in New York City, but it is only because of the large amounts put out by the Treasury and the imports of borrowed gold from Europe.

Prior to the recent bank failures and the October panic, we did not feel the effect of the loss of this currency, because the banks have been replacing it, as much as they dare, with securities. Thus in 1904, New York savings banks held less than $19,000,000 worth of United States bonds, as against $111,000,000 seven years before. In the same period their security holdings rose from nothing to $177,000,000. This identical thing has been going on all over the United States, as is proved by enormous expansion of loans. Referring to this matter, the *Wall Street Journal*, November 28, 1906, shows that since 1895 there has been an increase of $2,500,000,000 in the amount of stocks and bonds held by the banks and trust companies of the United States. This is an expansion of over 160 per cent in the bond reserves of the banks. In the same period the loans of all banks increased from $4,311,000,000 to $9,863,000,000. Adding the securities to the loans, it is found that there is now an extension of credit by the banks amounting to $13,936,000,000, a sum nearly five times as much as the money in circulation, and representing an expansion of over 137 per cent in eleven years. The total expansion of credit by securities held and by loans amounted to over $8,100,000,000.

That the Wall Street banks have had a hand in this business is clearly shown by the following quotation from the *Times*, July 10, 1904: "Country banks are being gradually educated up to the acceptance of New York Stock Exchange securities as collateral. Many banks now make loans on such collateral, which some years ago would not have accepted it at all. *Where will they be when the pinch comes?*"

Well, the pinch came on October 24, 1907, and the American people had a good chance to see where those banks were. Those that had a legal right to demand thirty days' notice took advantage thereof. Those that had no such right simply slammed their doors in the faces of depositors and refused to pay out a dollar. Even now the public seems to have an imperfect idea of the state of affairs. Apparently it thinks that all this money is

still in the country, whereas a great deal of it has been carried off by the aliens. It has gone to Italy, to Austria, to China, to Japan, and to various other countries.

The extent to which the absorption of our currency by these aliens and by the foreign banks, has drained the country and stripped our own banks of their cash, leaving them with nothing but Stock Exchange securities to do business, is clearly shown by this statement in the financial column of the *Press*, November 21, 1907: "There is no disguising the fact that in the highest quarters the pinch for cash is being felt. Folk are just beginning to realize how extensively our financial fabric has been built up on loans secured by stocks and bonds as collateral. The Morse and Thomas method of buying up one bank with the loans obtained on the stock of another and continuing the process indefinitely has spread extensively through the financial world."

Throughout the whole of 1907, financial leaders and Treasury officials were repeating that the boasts of previous years were sound at the bottom. But any student of the facts as published from time to time could see that conditions were very unsound and that the banking position was liable to break down even before any industrial decline set in. And, as usual, the surest indication of this was the frantic effort to stave off gold exports. According to one foreign authority, the new borrowings for this purpose up to September 11, 1907, aggregated $150,000,000. Along with the failure in Amsterdam and our own bank difficulties came the announcement of a resumption of gold exports to Germany, October 19. It was said that Dutch liquidation caused this last efflux, but the reports showed that other foreigners bought much more of our securities than the Dutch sold.

Now, there is no doubt that it was this last outflow of gold, small as it was, that precipitated the panic of October 24. This is proved by this statement in the *Wall Street Journal*, October 12, 1907: "After the panics Europe must have received extra inducements from some quarters, for the reports of the *Journal of Commerce* and other papers show that it was foreign capital along with Treasury aid that finally checked the disaster."

Writing of "Foreign Exchange in 1907" in the *Times*' "An-

ual Review," January 5, 1908, S. J. Bieber points out it was the refusal of London bankers to take any more American finance bills that was a "contributory cause of the distressing scenes that were witnessed on the New York Stock Exchange during the middle of October."

When our bankers were refused aid by London, they applied to Paris, but there, too, they were rebuffed. This latter refusal led to some recrimination in French banking cricles and caused the publication of the following statement from the Finance Minister, Caillaux: "At this writing violent recriminations are being indulged in against the Bank of France for what is called its 'refusal to advance gold to a group of American financiers.'" This has led to a published statement by Minister Caillaux through his *chef de cabinet:* "First, the American Government cables the French Government to inquire if the loan can be obtained; second, the French Government, after consulting with the Bank governors, cables back: 'Yes, if the American Treasury guarantees repayment.' President Roosevelt now replies that this is impossible, that the Bank must accept the bankers as sole guarantee — which was impossible by the Bank's own charter."

This refusal of French bankers to lend money without a guarantee by our Government, along with the refusal of London bankers to help us out, not only precipitated the October panic, but it also disclosed, in a very striking manner, the main cause of that trouble.

If these foreign bankers had based their action upon our unsound monetary system the event would have been heralded far and wide as an unanswerable argument in favor of asset currency. But they did not do anything of the kind. The sole reason they gave was that our foreign debt, based almost entirely upon railroad securities, had assumed such frightful proportions that they did not consider it safe to lend us any more on such collateral without a Government guarantee.

Here we have a flat contradiction, by the very highest authorities, of all this talk about foreign liquidation of American railroad securities. For the past ten years we have been told by financial experts that Europe's holdings of our railroad issues

was in consequence of this liquidation, nothing to what it was before 1893, and that the remittances of interest dues were greatly reduced. But now we learn that Europe's holdings of securities have grown to such dimensions that she refuses to take any more of them.

When I combatted the claims of this foreign liquidation in THE SEWANEE REVIEW, and presented facts which showed that instead of such liquidation there had been enormous increase of foreign investments in our railroad securities, my views met with the same chilling reception among financial experts here in New York that was accorded to my letter on the "Creditor Nation" lunacy three years before.

The action of these foreign bankers not only confirms my view as to foreign liquidation, but it also confirms my estimate of these annual foreign debts. It shows that they largely overtop our trade balances, leaving us with a huge deficit to meet every year. During the past ten years the net imports of gold that was not borrowed in 1906-1907, was but little more than the net imports of silver. How then could Europe have paid for all these railroad securities without sending us the cash? Or, to put it in another way, how could we have piled up this enormous debt which staggers Europe, unless it was in settlement of a deficit? Is there any other answer to this question than the one already given?

The panic of October, 1907, was, it is now generally admitted, the greatest financial disaster that ever visited any country; and the fact that it was caused by this enormous foreign debt, should warn the American people that their country is rapidly drifting towards financial slavery. It is time for them to learn that Micawber's philosophy is as true on a large scale as a small one: "Annual income, twenty pounds; annual expenditure, twenty-ought-six; result, misery."

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